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Returning to Work

Many Minnesotans who experienced long-term unemployment during the recession are finding work again, but not always in the same industry or at the same pay level as their previous jobs.

Early in the recovery, many of the first people to find jobs were those who had been unemployed for a relatively short time. The long-term unemployed (those out of work for more than a year) continued to struggle, however, with their numbers peaking in the year leading up to August 2011. As of June 2012, Minnesota still had an average of 42,500 people who had been jobless for more than one year.

In a slack job market, employers have their pick of candidates and often favor those with the most recent experience. That tendency contributed to the growth in the long-term unemployed even while the economy was recovering. While many of the long-term unemployed are finding work now, success has not been evenly distributed across industries and pay scales.

The findings in this article are based on an analysis of 120,344 people who found jobs in Minnesota after claiming extended unemployment insurance (UI) benefits beginning in 2008. The study group represented about 62 percent of the long-term unemployed who received extended benefits in Minnesota during the period.[1] Not everyone in the group could be tracked because some moved out of state for jobs or became self-employed.

Industry Employment Trends

Industries and their workforces experienced the recession in different ways. Construction employment, for example, crashed early in the recession and has not fully recovered. Health care employment never declined but growth slowed. Government employment was pummeled, but not until later in the recession when years of funding cuts, lower tax revenue and higher demands for service began to take their toll.

In Figure 1, employment is represented as a ratio — essentially the rate of change since January 2006 — so that all industries fit on one scale. As the chart shows, health care has been growing since 2006, although it slowed to a crawl in 2009 and 2010. Real estate and rental and leasing was also growing in 2006, holding up well during the early part of the recession. But it lost employment after the financial markets crashed in 2008. Construction had been struggling for a while — with news reports of a glut in the housing market preceding the official start of the recession — but the industry's most rapid declines occurred in tandem with employment drops in the real estate market. Mining, a small industry in Minnesota, saw some of the most spectacular changes over the past few years. Iron ore facilities in northern Minnesota were shut down mid-recession due to lack of demand, resulting in huge layoffs. The recent economic upswing spurred these companies to invest in new, high-tech facilities, and mining employment has since soared.

Working in the Same Industry

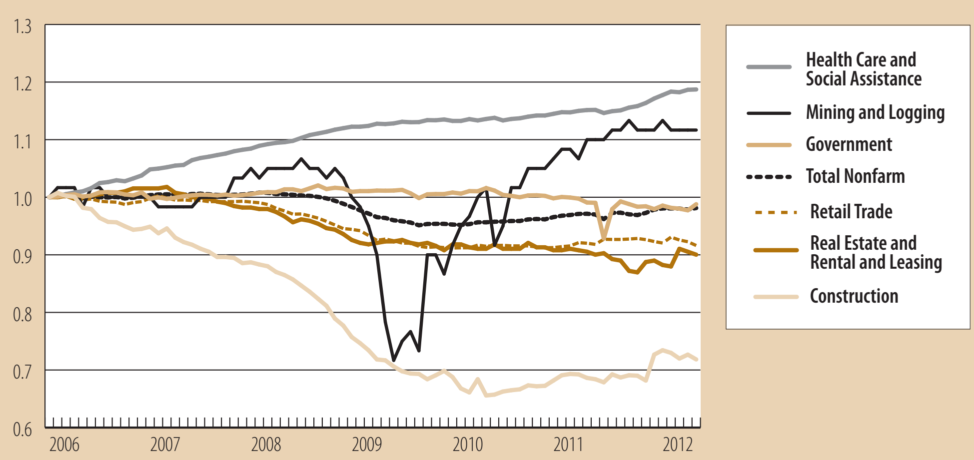
In theory, people are best qualified for the same type of job they held before being laid off. Certainly there is always some mismatch where a worker opts for a job that doesn't fully utilize his or her skills or an employer finds a worker is ill-suited for a position. Generally, though, workers' most current work experiences are likely to be good indicators of their skill sets.

Large numbers of workers failing to find work similar to what they did prior to being laid off can indicate a number of things. One possibility is the industry where they worked is not hiring, forcing job seekers to find work in another industry. Another possibility is that the occupation is in low demand due to changes in technology, outsourcing overseas or other factors. Data entry technicians, for example, may be replaced by software programs (and the appropriate technical staff to maintain them). An industry switch in this case could indicate the workers' skills are outdated and they had to shift careers, or that they found similar work in an industry that doesn't find technology or outsourcing solutions to be as profitable. A third possibility is that a job seeker's skills don't transfer well across industries. While human resources representatives can work in most industries, metal workers are limited to a subset of construction and manufacturing jobs. In all probability, some combination of all three is usually a factor in people being unable to find work similar to their previous jobs.

The top industries for re-employment all require unique skills. Mining hires geologists, engineers and technicians who work with specialized equipment — talents that don't translate easily across industries. Construction often requires high levels of skill that are not required in other industries. Educators may have areas of expertise that are widely applicable, but the real skill they bring to the table — teaching — is valued mostly within the

FIGURE 1

Minnesota Industry Employment as a Share of January 2006 Employment



Source: Current Employment Statistics, 2006-2012 Minnesota seasonally adjusted, www.PositivelyMinnesota.com/apps/lmi/ces/

TABLE 1

Re-employment Rate in Same Industry After Long-Term Unemployment

Major industry	Employed	Employed in Same Industry	Percent Employed in Same Industry
Mining	661	570	86.2%
Construction	24,557	18,941	77.1%
Agriculture, Forestry, Fishing	1,390	911	65.5%
Educational Services	3,049	1,989	65.2%
Public Administration	1,813	1,174	64.8%
Accommodation and Food Services	6,671	4,277	64.1%
Health Care and Social Assistance	7,719	4,936	63.9%
Administrative, Support, and Waste Management and Remediation Services	15,539	9,873	63.5%
Arts, Entertainment and Recreation	2,151	1,297	60.3%
Transportation and Warehousing	3,378	1,932	57.2%
Retail Trade	9,663	5,063	52.4%
Manufacturing	20,597	10,237	49.7%
Utilities	496	236	47.6%
Other Services (except Public Administration)	3,261	1,545	47.4%
Professional, Scientific and Technical Services	5,995	2,676	44.6%
Real Estate, Rental and Leasing	1,605	592	36.9%
Finance and Insurance	2,637	842	31.9%
Wholesale Trade	5,218	1,651	31.6%
Information	1,698	448	26.4%
Management of Companies and Enterprises	1,970	426	21.6%
Total	**120,344**	**69,667**	**57.9%**

Source: Minnesota unemployment insurance and wage records, covering claimants who received extended benefits starting from third quarter 2008 to third quarter 2010 and were re-employed within 10 quarters

education industry. These three industries, among others in the top half by re-employment rate (Table 1), also offer wages that are higher than average, increasing the incentive to "hold out" for a better job after layoff.

The industries at the bottom — management of companies, information and wholesale trade — all have skills that are used in many industries, often as a support department within large companies. Other industries — finance and insurance, real estate, and professional, scientific and technical services — are still below their 2006 employment levels, suggesting that these industries were not hiring during the period of study. Professional and scientific has come back strongly in the last several years.

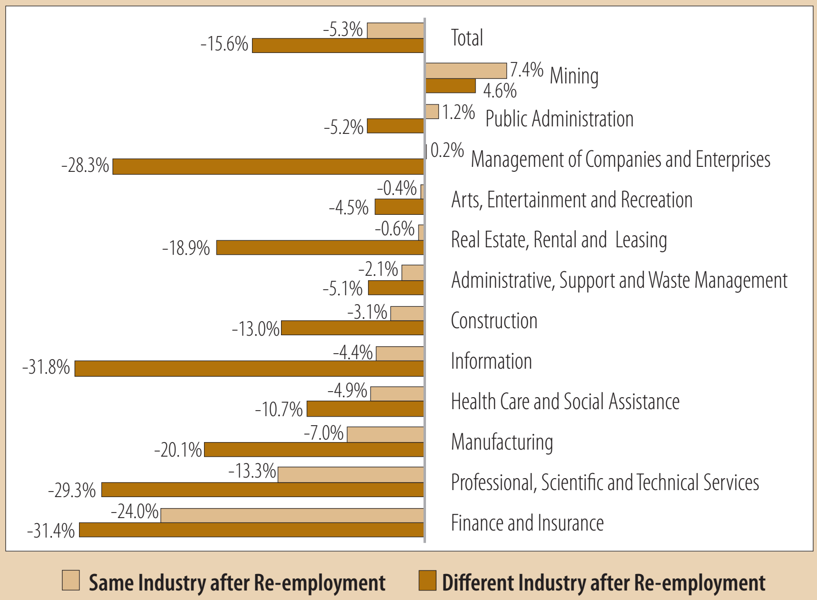
Rerunning these numbers now may provide a very different result. On the other hand, it may continue to show high rates of long-term unemployment in this industry, possibly indicating a skills mismatch.

Pay Scales

Substantial changes in pay for workers returning to their industry could tell us several different things as well. Declines may reflect a rebalancing to get wages more affordable for employers, or they may suggest supply still exceeds demand. Many of the industries with less wage change tend to be more highly unionized — mining, public administration, education and health care. Finally, a large difference in what workers earn if they return to their industry and if they leave it may indicate that those skills are less applicable across industries. Figure 2 shows how wages differ based on the pattern of re-employment, whether re-employed in the same or a different industry after a spell of long-term unemployment.

FIGURE 2

Change in Median Wage after Long-Term Unemployment



Source: Minnesota unemployment insurance and wage records, covering claimants who received extended benefits starting from third quarter 2008 to third quarter 2010 and were re-employed within 10 quarters.

The only industry where skills commanded a premium after extended layoff was mining. Even workers initially employed in mining who shifted out of the industry earned more. Employees in public administration also landed on their feet when they didn't switch industries — and most stayed in public administration. Information workers saw the biggest penalties for switching industries, while finance and insurance workers saw the biggest pay losses regardless of what industry they entered after returning to work. Since finance and insurance workers had the fifth-highest median wage of all selected industries ($19.80 per hour), it makes sense that they took a hit when moving to a different industry after a spell of unemployment.

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The Market for Lemons

By Steve Hine

As the accompanying article clearly shows, the dramatic increase in the number and share of long-term unemployed is a distinctive feature of the recent recession, and it will have lingering effects far into the future. Long-term unemployment — typically defined as being out of work for six months or more — imposes costs on people that go well beyond lost wages. Future earnings are lower, health is negatively impacted, and even relationships and self-esteem are damaged.[1] These significant costs suggest the need to identify and ameliorate the causes of long-term unemployment and the factors that reduce the odds of re-employment the longer an individual is unemployed.

A number of reasons have been posited for this inverse relationship between unemployment duration and re-employment probability. These reasons might include the atrophying of skills that occurs with being out of a job for so long, or the likelihood that those with highly marketable skills will find employment more quickly than those with less marketable skills. Worker retraining programs are a ready response to this problem. Another reason might be that long spells of job hunting tend to affect people over time. Job seekers become discouraged, and this discouragement, in turn, can negatively impact candidates' presentations of themselves in job interviews. The popularity of support groups and job clubs is evidence that this is a real phenomenon.

Yet another reason the long-term unemployed face increasing difficulties in their job searches is that employers have increasingly discriminated against them by requiring current or very recent employment as a precondition for being considered for a job.[2] The practice has been widespread enough that the District of Columbia and 17 states, including Minnesota, had bills introduced during their 2012 sessions to outlaw it, although only New Jersey, Oregon and the District of Columbia have enacted such legislation.

Some of this "discrimination" may well be a cost-effective (aka cheap) response to the previously identified reasons that a longer-term unemployed person may indeed be an unattractive candidate. But often the practice is seen as a response to the perception that some of the long-term unemployed are simply deadbeats who haven't tried hard enough to find work. But to engage in practices that exclude the millions of long-term unemployed who would be fully qualified and capable candidates from consideration is costly to those individuals affected and to the economy that now loses out on their productivity.

In 2001, George Akerlof won the Nobel Prize in economics in large part for an article titled "The Market for Lemons: Quality Uncertainty and the Market Mechanism."[3] In this article he argues that in the market for used cars, the inability of buyers to distinguish quality cars from defective "lemons" results in a lower price being offered for all used cars and that many transactions that would have occurred in the presence of better information do not occur. Akerlof's analysis and its impact on the used-car market might also be applied to the labor market and, in particular, to the pool of long-term unemployed.

If there is some chance, either real or simply perceived, that a hire from the pool of long-term unemployed could turn out to be a lemon (although perhaps couch potato would be a more apt vegetal metaphor in this context), then employers will be less willing to use the long-term unemployed as a source of candidates rather than the short-term unemployed or currently employed. The end result is that hires that would be mutually advantageous to the employer and job seeker do not occur and society as a whole suffers an efficiency loss.

One mechanism through which we ameliorate these inefficiencies in the used-car business is the used-car warranty. Although new hires may not come with a warranty, job interviews, reference checks, probationary periods and other practices common in human resource management are meant to serve as similar devices. Job seekers are also instructed to demonstrate initiative through volunteer work or other activities during their unemployment spells in order to demonstrate their "high quality." Part of the solution should also be the recognition that "lemons" truly make up a small if not insignificant share of the nearly 5 million long-term unemployed. As I have found as a frequent used-car shopper, there are lots of "good buys" out there just waiting to prove themselves.

[1]www.pewresearch.org/pubs/1674/poll-impact-long-termunemployment.

[2]www.nytimes.com/2011/07/26/business/help-wanted-ads-exclude-the-long-term-jobless.html?_r=2&partner=rss&emc=rss.

[3]Quarterly Journal of Economics, Vol. 84, No. 3, August 1970, Oxford University Press.

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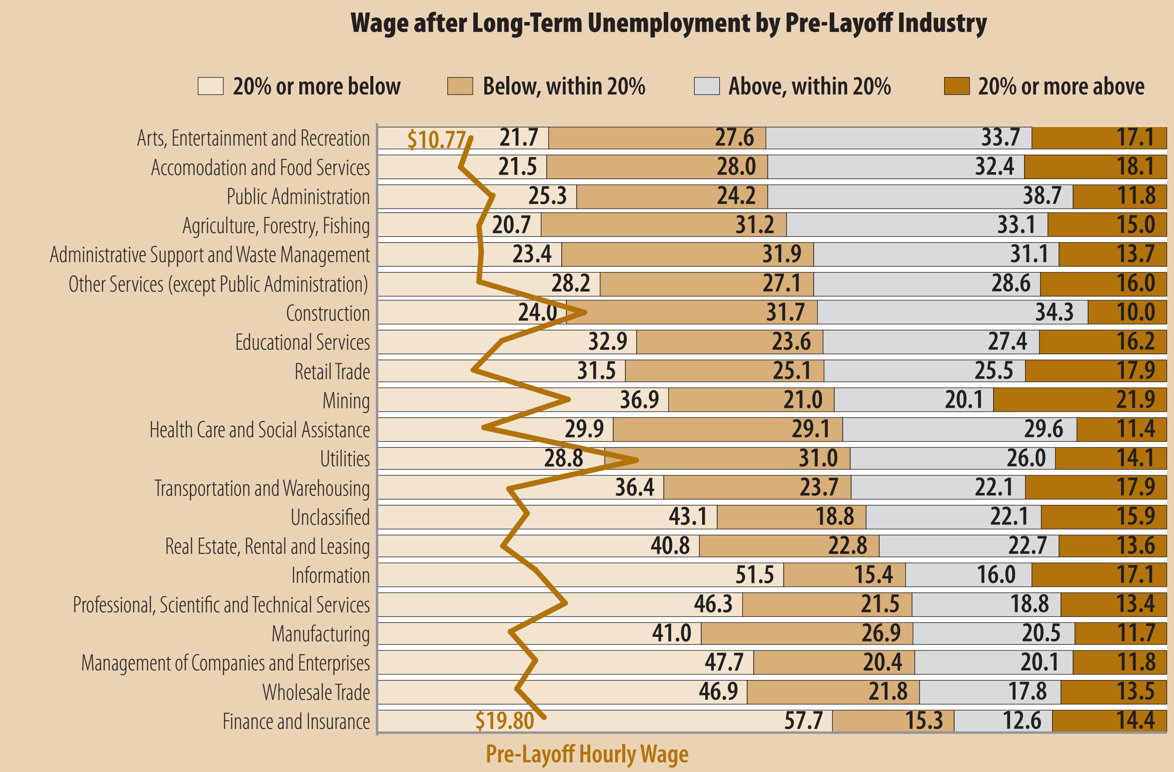
In Figure 3, the pre-layoff wage is compared with the returning wage regardless of the industry where workers finally found employment. The bars are arranged in order of the share of workers earning more at their post-layoff job than their pre-layoff job. Although there are exceptions, generally the higher the wage the more likely the worker was to take a pay cut.

Conclusion

Industries reacted differently to the recession, resulting in varying experiences for people who were laid off. The long-term unemployed provide an interesting case study in these differences. Where industries have shrunk, unemployed workers were forced to look for jobs in other industries. Returning to work is often a compromise — likely requiring a pay cut. But in industries that require specialized skills and to a certain extent in industries that are unionized such as mining and construction, companies were more likely to hire back workers at the same or higher wages. As the business outlook improves, employers will have to dig deep for workers with the right, highly specific skills.

FIGURE 3



Source: Minnesota unemployment insurance and wage records, covering claimants who received extended benefits starting from third quarter 2008 to third quarter 2010 and were re-employed within 10 quarters

[1]The analysis was based on a study of claimants who started receiving unemployment insurance extended benefits from third quarter 2008 to third quarter 2010 and were re-employed within 10 quarters. For a detailed discussion about the limitations and uses of these data, please see the first article in this series, "Left Behind by the Job Market," in the September 2011 issue of Minnesota Economic Trends. The second article in the series, "Working for Less," appeared in the March 2012 issue of Minnesota Economic Trends.